accounting standards without obtaining FCC approval.	accounting concepts as the business community at large. Customers of price cap carriers are protected from rate setting anomalies since rates do not bear a direct relationship with costs under price caps.
• Permit carriers to recognize extraordinary items, prior period adjustments, contingencies in conformance with GAAP without first filing for FCC approval. • Remove ceilings for error correction levels.	This activity detailed in Part 32.25 is of little or no use to anyone, especially as related to price cap carriers. Material events are disclosed in the 10-K and the financial reports.

May 6, 1998

PART 64 SIMPLIFICATION ISSUE	PROPOSED ALTERNATIVE AND ANALYSIS
1. **General Allocator** Streamline and simplify the calculation for the general allocator which is applied against those costs which can not be associated with a relevant direct or indirect allocation factor.	General allocator (Reference 64.901(b)(3)(iii); CC Docket 86-111, Order on Reconsideration, released 10/16/87, para. 2, 71-83) Allow the calculation of the general allocator to be based on operating expenses calculated on an annual basis. Part 64/Docket 86-111 Order require that the allocator be computed by developing a specific ratio employing expenses directly assigned or attributed to regulated versus nonregulated activities. Additionally, the general allocator calculation is based on a three month average which in the aggregate is a very detailed calculation which relies on tracking specific monthly balances. Since all FCC ARMIS reporting is now required only on an annual basis, SBC suggests that the general allocator additionally should be calculated on the entire year's operating expenses previously assigned to the nonregulated jurisdiction versus those previously assigned to the regulated jurisdiction. Refer also to suggestion 10 which proposes to eliminate the distinction between directly attributed and indirectly attributed costs.
2. **Marketing Allocator** Eliminate the requirement to calculate a marketing allocator which is applied against the marketing and sales expense accounts in	The marketing allocator (CC Docket 86-111, Report and Order, released 2/6/87, para. 203) is developed specifically to allocate the expenses for accounts 6611, 6612, 6613, and a portion of 6623 and 6722. These accounts deal with various marketing, sales, and customer service activities. The allocator is based on the ratio of regulated versus nonregulated costs previously (directly or indirectly) assigned within these accounts. SBC believes this calculation is far too detailed and no longer necessary given the availability of the general allocator to use in lieu of the marketing allocator. This degree of accuracy and additional preciseness of the marketing

allocating costs to the nonregulated jurisdiction.	allocator is not warranted for price cap carriers which no longer set interstate rates directly based on cost of service calculations.
3. Allocation of Common Network Investment based upon forecasting future usage should be discontinued.	Central office and outside plant investment forecasting (Ref. 64.901(b)(4)) – Forecasting the amount of nonregulated product usage of network investment 3 years in advance is difficult, sometimes highly inaccurate and should be discontinued. This forecast determines the amount of costs associated with that network plant investment or expense to be assigned to the nonregulated jurisdiction. Technology changes quickly and it is difficult to forecast use of these nonregulated products 3 years in advance, especially for new products. SBC contends that actual usage or attributed use calculations as used for all other types of Part 64 allocations should be utilized in this case also.
4. Permit carriers to file CAMs based on the Class B set of accounts.	Part 64 Account Level Reporting (Ref. 64.903(a)(5) - File and operate CAM at a Class B level. This will still allow for an adequate amount of reporting detail for the benefit of the ARMIS 43-03 report and still provide some relief from the burdensome task of reporting the significant amount of detail associated with each account in the ARMIS 43-03 report. The cost allocation work for any given carrier is performed on a cost pool basis which generally is not a Class A account.
5. CAM filing requirements should be simplified.	CAM filing requirements (Ref. 64.903(b)): • SBC suggests requiring CAM filings only on an annual basis. This would eliminate the requirement to update

Sections VI and VII at least 15 days before the carrier plans to implement nonregulated product modifications. It is SBC's experience that filed changes to the CAM in any given year do not have a material impact on the overall allocation of costs to the nonregulated jurisdiction. Multiple CAM filings necessitated by often minor changes in nonregulated product offerings or the processes associated with these products causes continuing burdensome activities in making multiple CAM filings each year. For price cap carriers in particular, these multiple updates of their CAMs are all but meaningless since interstate rates are no longer directly based on cost of service calculations.

- Additionally, SBC proposes to eliminate the quantification requirements for CAM changes for Tier 1 carriers for changes up to $1 million dollars in nonregulated revenue requirement. Calculating individually each mi cost allocation change is very time consuming. SBC therefore suggests that the benchmark for reporting th quantifications should be set at $1 million which would therefore provide this information for those changes deemed to be significant.

6. Independent audits-adjustments for errors found in the CAM audit. Modify the error benchmark.	Independent audits (Ref. 64.904(a) and RAO 12) error adjustments. SBC suggests the elimination of the $1 million error threshold above which errors are required to be adjusted and corrected. As an alternative, employ the auditor's materiality level normally employed for GAAP audits which would be targeted more closely with the materiality of the nonregulated operations for that particular carrier. A $1 million error for a Tier 1 carrier constitutes a very small percentage of the overall nonregulated revenues or costs. In Southwestern Bell Telephone Company's case, a $1 million adjustment would represent less than 0.2% of the nonregulated revenues. SBC believes that this is an arbitrarily small benchmark for a Tier 1 carrier which can cause and does cause burdensome restatements of the financial statements.
7. Conduct the Part 64 audit biennially and audit both audit years	Conduct the Part 64 audit biennially and audit both audit years concurrently. This will save in the significant administrative exercise of gathering audit support for the FCC audit staff on an annual basis. It is much more efficient to conduct a two-year audit at one time than it is to conduct two separate one-year audits. The staff has

concurrently.	conducted two-year audits like this in the past and in SBC's experience they have been more effectively managed in this manner.
8. Eliminate the Account matrix in Section II.	SBC submits that this multi-page chart is of no benefit to the reader and it is time-consuming to update and maintain in the CAM. This requirement should be eliminated.
9. Streamline and reduce other burdensome reporting in other parts of the CAM reporting requirements.	Modify sections IV and V of the CAM to identify and report only material affiliate transactions for Tier 1 carriers • In section IV, the affiliate chart, SBC proposes to require delineation of only affiliates that have in excess of $10 million in assets. This will eliminate the reporting of affiliates which are not meaningful in size and woul not have a significant impact in any regard to the Telco operations. In Southwestern Bell Telephone Company's (SWBT)CAM there are 12 or more pages of detailed charts of the affiliates; many of which are very small in magnitude. • In section V, list only those services where the annual payments exceed $100,000. SWBT's CAM currently contains 121 pages of detailed descriptions of affiliate transactions. A significant portion of these transactions represent minor cash flows between the various affiliates which could have no meaningful or material impact on telephone company operations. SBC proposes to eliminate all text from these charts for transactions less than $100,000 is scope. • Eliminate the required affiliate transaction matrix in section V. This matrix illustrates the cash flows between affiliates which are already explained in great detail in the service descriptions referred to above. In addition, an index at the front of Section V serves to guide the reader to through the transactions. Thus, this chart is redundant and should be removed.
10. Simplify the reporting burden of "directly" attributed and "indirectly" attributed costs.	The CC Docket 86-111 Report and Order previously referred to above established a dichotomy for cost allocation broken down into 2 separate methods of attributing costs not directly assigned, i.e. direct and indirect attribution. Additionally, the reporting requirements for the ARMIS 43-03 report require separate presentation of amounts associated with each of these allocation methods. In reality, there is very little distinction between these 2 techniques and the difference in practice in performing the direct versus the indirect detailed algorithms in a carrier's cost allocation system becomes very difficult to discern in substance. SBC proposes that these terms

should be eliminated and that future reference to the allocation techniques and the reporting of them should simply be labeled as one category, attributed. This will aid in simplifying both CAM processing since these two separate groups would no longer need to be separately tracked and it would simplify ARMIS reporting since these categories would no longer have to be individually reported in the 43-03 report.

11. **Eliminate the nonregulated reporting of incidental interlata services.**

The Accounting Safeguards Order, CC Docket 96-150 dated December 24, 1996, required that incidental interlata services should be treated as nonregulated for federal accounting purposes. To date, this effectively causes SBC to report certain signalling services as nonregulated which are difficult to track and very time consuming in regards to finding and executing appropriate usage based allocators against the costs of these services. SBC believes that this requirement is unnecessary and burdensome. The Order relied upon the Telecommunications Act, Section 271(h) language which merely mandates that certain interlata incidental services will not adversely affect telephone exchange service ratepayers or competition in any telecommunications market. These services are tariffed Title II services and, as such, could not affect exchange service through any type of cross subsidy. Additionally, to the extent that there is little or no relationship between cost of service in both the interstate jurisdiction as well as the state jurisdiction, then this is a moot point. SBC suggests that since little if anything is gained by treating these as nonregulated, any benefit of this requirement is far outweighed by the extreme burden imposed by the tedious process of collecting detailed usage data on a monthly basis and processing this through the Part 64 allocation process.

12. **Eliminate the FCC staff approval process for sampled time reporting systems.**

As an outgrowth of its CAM audit responsibilities, the FCC staff has required an elaborate review process before a carrier may implement any new sampling time reporting systems. As such, SWBT has been working on a new time reporting system that uses efficient sampling techniques since 1993, but to date SWBT has not been able to satisfy the FCC staff's elaborate review process in order to proceed with implementation. SWBT has spent tens of thousands of hours trying to satisfy various needs of the Staff in demonstrating the validity of the system. SBC proposes that review and acceptance of such a system should be a routine function of the outside auditor that performs the CAM audit and that an elaborate acceptance process with the FCC staff is unnecessarily bureaucratic and chilling to efforts in trying to promote internal efficiency and process improvement essential to greater productivity.

13. **Eliminate some unnecessary CAM filings by allowing**

Recently, Staff has provided direction in wanting cost pools removed if they weren't going to be used in the near future. This has caused carriers to make CAM changes to remove these cost pools and at a later date more changes to reintroduce the use of these pools when the need arose. For example, some pools may only be used periodically

unused cost pools to remain in the CAM if it appears that there will be a future need.	SBC proposes to let these pools remain in the CAM if there is deemed to be a future need for them. This will reduce some of the burden of performing activities which have no impact on the CAM results in any way.
14. Reduce the frequency of floorspace studies so that they only need to be completed every 3 years.	The 1993 CAM Uniformity Order requires building floorspace studies to be completed on an annual basis for purposes of allocating building costs. This is a very time-consuming study which requires hundreds of hours annually to prepare for a Tier 1 carrier. Moreover, the use of building space does not significantly change from one year to the next and the change in allocation created by a given building study will not materially change the allocation of costs to the nonregulated jurisdiction. Thus, SBC submits that it is not a prudent cost/benefit procedure to complete this on an annual basis and that it more meaningful to complete this on a three-year cycle as is the practice for many of the Part 36 studies performed in the past.
15. Eliminate the need to complete cost allocation of nonregulated services that are *de minimis* in size.	SBC proposes to eliminate cost allocation tracking and reporting for nonregulated services which have revenues of less than 1% of the total nonregulated revenue total for a carrier. This will eliminate the detailed data gathering and cost allocation calculations for those services that will not have more than a de minimis impact on the nonregulated results.

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application. To further compound the problem many rules are duplicated in multiple sections. To ensure consistent application and understanding of the rules related to the provision of wireless services, the rules must be streamlined and/or eliminated as appropriate to remove duplication.

10. Affiliate Transaction Rules

Admittedly, the 1996 Act indicates that safeguards are applicable to certain activities. For example, Section 276 refers to the nonstructural safeguards required to implement the deregulation of payphone service. Similarly, Section 272 requires Bell Operating Companies to account for transactions with their 272 affiliates "in accordance with accounting principles designated or approved by the Commission." However, the 1996 Act does not prescribe what accounting principles to use, nor does it preclude forbearance. Certainly, the 1996 Act does not require multiple layers of protection when one is sufficient. The Commission should only retain and apply the affiliate rules to the extent strictly necessary to protect ratepayers. As stated above concerning the Part 64 CAM rules, a system of pure price cap regulation is sufficient in and of itself to protect ratepayers from cross-subdsidy because it does not permit ILECs to raise rates to fund any cross-subsidy. Therefore, like Part 64, the Commission should be able to simplify the affiliate transaction rules[60] with little, if any, reduction in the protection for ratepayers.

One example of multiple, redundant layers of protection is the Commission's decision to begin applying the affiliate transaction rules to an ILEC's performance of nonregulated activities on behalf of an affiliate, even when that ILEC is subject to pure price cap

[60] 47 C.F.R. § 32:27.

regulation.[61] In the case of a nonregulated activity, such as inside wiring or computer bureau services, the Part 64 CAM process removes the fully distributed cost of the nonregulated activity from regulation. It is entirely unnecessary to overlay the affiliate transaction rules on top of the CAM processing of the costs of such activities. In effect, the Commission is requiring the ILECs to further break down the nonregulated costs into the amounts attributable to affiliates and non-affiliates as well as the amount attributable to each transaction with each affiliate. Specifically, the Commission should refrain from applying the affiliate transaction rules to the ILEC's performance for affiliates of those activities identified as nonregulated in Section II of the ILEC's CAM on file with the Commission.[62]

Another example of excessive protection is the requirement adopted in December 1996 to determine the fair market value of services performed between ILECs and their affiliates.[63] The requirement to value these service transactions at fully distributed cost is more than sufficient to protect ratepayers, especially in light of price cap regulation. Determining the fully distributed cost of these service transactions is a burdensome process by itself; the additional burden of determining the fair market value of each and every service transaction is not justified by the *de minimis*, if any, benefit that it might provide.

At a minimum, the Commission should eliminate these two onerous aspects of the affiliate transaction rules.

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[61] SBC Petition for Reconsideration, CC Docket No. 96-150, filed February 20, 1997, at 2-6; 47 C.F.R. § 32.27.

[62] 47 C.F.R. § 32.27(c).

[63] Accounting Safeguards Order, CC Docket No. 96-150, 11 FCC Rcd 17539 ¶¶144-148 (1996); 47 C.F.R.§32.27(c).

1997 ARMIS 43-03 Data by Operating Company								
($'s in Thousands)								
	Line 530-Total Operating Revenues [net]				**Line 720-Total Operating Expense**			
	Column i Regulated	**Column j Non-Regulated**	**Column b Total**	**Percent Non-Regulated**	**Column i Regulated**	**Column j Non-Regulated**	**Column b Total**	**Percent Non-Regulated**
United Telephone of Ohio	$419,386	$48,849	$468,236	10.43%	$287,533	$46,766	$334,298	13.99%
Carolina Telephone/Telegraph	$656,593	$123,810	$780,403	15.86%	$488,083	$116,158	$604,241	19.22%
Puerto Rico Telephone	$971,410	$89,160	$1,074,166	8.30%	$675,232	$204,892	$880,124	23.28%
Puerto Rico Central Telco	$134,395	$8,702	$143,097	6.08%	$82,462	$12,503	$94,965	13.17%
Sprint, Missouri	$187,407	$20,882	$208,289	10.03%	$121,607	$21,994	$143,601	15.32%
Frontier of Rochester	$306,153	$19,544	$325,697	6.00%	$191,671	$15,877	$207,548	7.65%
Alltel Georgia Communications	$212,247	$20,686	$232,933	8.88%	$119,358	$10,848	$130,206	8.33%
Aliant Communications Co	$193,234	$14,832	$208,066	7.13%	$128,281	$23,670	$151,951	15.58%
United Telephone of Penn	$232,855	$33,105	$265,960	12.45%	$164,063	$31,243	$195,306	16.00%
Cincinnati Bell	$599,049	$71,067	$670,116	10.61%	$403,770	$87,063	$490,833	17.74%
	$3,912,729	$450,637	$4,376,963	10.30%	$2,662,060	$571,014	$3,233,073	17.66%
	Line 750-Total Expenses				**Line 2001-TPIS**			
United Telephone of Ohio	$348,852	$48,292	$397,144	12.16%	$1,172,897	$27,590	$1,200,487	2.30%
Carolina Telephone/Telegraph	$557,522	$120,086	$677,608	17.72%	$1,927,588	$47,158	$1,974,745	2.39%
Puerto Rico Telephone	$680,238	$202,716	$882,954	22.96%	$2,737,580	$258,372	$2,995,952	8.62%
Puerto Rico Central Telco	$83,674	$12,093	$95,767	12.63%	$306,421	$14,369	$320,790	4.48%
Sprint, Missouri	$156,126	$22,212	$178,338	12.46%	$487,972	$8,139	$496,112	1.64%
Frontier of Rochester	$251,450	$17,714	$269,164	6.58%	$858,166	$23,745	$881,911	2.69%
Alltel Georgia Communications	$171,886	$12,504	$184,390	6.78%	$718,349	$11,236	$729,585	1.54%
Aliant Communications Co	$144,054	$20,671	$164,725	12.55%	$483,741	$33,454	$517,195	6.47%
United Telephone of Penn	$194,590	$32,281	$226,871	14.23%	$674,426	$15,603	$690,029	2.26%
Cincinnati Bell	$508,244	$82,367	$590,611	13.95%	1597460	$53,035	$1,650,495	3.21%
	$3,096,636	$570,936	$3,667,572	15.57%	$10,964,600	$492,701	$11,457,301	4.30%

EXHIBIT 2

1997 SBC ARMIS 43-03 data by operating company (SWBT, Pacific and Nevada)

1997 ARMIS 43-03 Line 720 (Total Operating Expense) ($s in thousands)

	Col i-Reg	Col j-NR	Col b-Total		% nonreg
SWBT	7078816	723739	7802559	rounding dif.	9.2757%
Pacific	6745114	570175	7315289		7.7943%
Nevada	135319	17909	153228		11.6878%
Total SBC	13959249	1311823	15271076		8.5902%

1997 ARMIS 43-03 Line 750 (Total Expenses) ($s in thousands)

	Col i-Reg	Col j-NR	Col b-Total		
SWBT	8558669	779535	9338207	rounding dif.	8.3478%
Pacific	8100232	458093	8558325		5.3526%
Nevada	148747	26050	174797		14.9030%
Total SBC	16807648	1263678	18071329		6.9927%

1997 ARMIS 43-03 Line 2001 (TPIS) ($s in thousands)

	Col i-Reg	Col j-NR	Col b-Total		
SWBT	30103760	483976	30587738	rounding dif.	1.5823%
Pacific	27023236	562362	27585598		2.0386%
Nevada	556944	7355	564299		1.3034%
Total SBC	57683940	1053693	58737635		1.7939%

1997 ARMIS 43-03 Line 530 (Total Operating Revenues [net]) ($s in thousands)

	Col i-Reg	Col j-NR	Col b-Total		
SWBT	9449576	846108	10295685	rounding dif.	8.2181%
Pacific	8162958	297277	8460235		3.5138%
Nevada	155666	40462	196128		20.6304%
Total SBC	17768200	1183847	18952048		6.2465%

Note: Nevada's nonregulated data includes yellow pages offering in telco.

SLECTED ARMIS 43-03 For Twelve Months Ended December 31, 1997

1997 ARMIS 43-03 Line 720 (Total Operating Expense) ($s in thousands)

	Col i-Reg	Col j-NR	Col b-Total	% nonreg
AMERITECH	$ 6,935,601	$ 952,702	$ 7,886,296	12.08%
BELL ATLANTIC	17,154,205	1,380,603	18,534,810	7.45%
BELLSOUTH	9,483,104	702,011	10,185,115	6.89%
GTE	7,739,579	1,192,560	8,932,136	13.35%
SOUTHWESTERN	13,959,249	1,311,823	15,271,076	8.59%
U S WEST	7,160,901	693,917	7,854,817	8.83%
TOTAL	$ 38,342,833	$ 3,900,311	$ 42,243,144	9.23%

1997 ARMIS 43-03 Line 750 (Total Expenses) ($s in thousands)

	Col i-Reg	Col j-NR	Col b-Total	
AMERITECH	$ 8,813,137	$ 913,350	$ 9,726,484	9.39%
BELL ATLANTIC	21,581,556	1,390,097	22,971,648	6.05%
BELLSOUTH	12,352,510	220,513	12,573,023	1.75%
GTE	10,189,585	1,153,313	11,342,895	10.17%
SOUTHWESTERN	16,807,648	1,263,678	18,071,329	6.99%
U S WEST	8,361,920	636,436	8,998,356	7.07%
TOTAL LINE 750	$ 47,711,663	$ 3,273,940	$ 50,985,603	6.42%

1997 ARMIS 43-03 Line 2001 (TPIS) ($s in thousands)

	Col i-Reg	Col j-NR	Col b-Total	
AMERITECH	$ 29,879,032	$ 568,162	$ 30,477,194	1.86%
BELL ATLANTIC	67,644,489	1,552,934	69,197,422	2.24%
BELLSOUTH	46,532,771	670,522	47,203,393	1.42%
GTE	40,440,418	641,100	41,081,517	1.56%
SOUTHWESTERN	57,683,940	1,053,693	58,737,635	1.79%
U S WEST	31,222,635	1,132,895	32,355,537	3.50%
TOTAL LINE 2001	$ 175,879,764	$ 3,498,210	$ 179,377,974	1.95%

Certificate of Service

I, Mary Ann Morris, hereby certify that the foregoing, "Comments of Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell," in CC Docket No. 98-81 have been served on July 17, 1998, to the Parties of Record.

Mary Ann Morris

Mary Ann Morris

July 17, 1998

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